

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Banner University Family Care
Years Ended December 31, 2021 and 2020
With Reports of Independent Auditors

Ernst & Young LLP



Banner University Family Care
Financial Statements and Supplementary Information
Years Ended December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
Banner University Family Care

Opinion

We have audited the financial statements of Banner University Family Care (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

May 25, 2022

Banner University Family Care

Balance Sheets

	December 31	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 526,192,700	\$ 322,171,329
Reinsurance receivable	20,073,290	21,183,533
Capitation and supplemental revenues receivable	885,468	12,118,041
Reconciliation receivable	–	26,072,731
Other current assets	5,130,211	5,778,110
Total current assets	<u>552,281,669</u>	<u>387,323,744</u>
Reconciliation receivable	9,695,478	9,426,046
Total assets	<u>\$ 561,977,147</u>	<u>\$ 396,749,790</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 5,873,998	\$ 12,479,402
Due to affiliate	50,520,412	74,604,280
Medical claims payable	217,424,254	154,805,355
Reconciliation payable	9,681,411	–
Alternative payment model	31,580,246	23,812,479
Other current liabilities	5,740,063	3,412,427
Total current liabilities	<u>320,820,384</u>	<u>269,113,943</u>
Reconciliation payable	77,495,804	30,029,434
Other liabilities	242,282	–
Total liabilities	<u>398,558,470</u>	<u>299,143,377</u>
Commitments and contingencies	–	–
Net assets	163,418,677	97,606,413
Total liabilities and net assets	<u>\$ 561,977,147</u>	<u>\$ 396,749,790</u>

See accompanying notes.

Banner University Family Care

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2021	2020
Revenue		
Capitation premiums	\$ 1,633,807,901	\$ 1,402,231,496
Delivery supplemental premiums	31,331,708	31,175,089
Reconciliation settlement, net	(71,181,892)	(32,408,113)
Alternative payment model settlement	12,512,747	20,933,744
Investment income, net	128,220	902,860
Total revenues	<u>1,606,598,684</u>	<u>1,422,835,076</u>
Health care expenses		
Hospitalization	215,438,047	216,858,628
Medical compensation	416,230,389	340,270,994
Ancillary and other medical services	590,490,255	508,625,127
Institutional	136,148,681	130,346,013
Home and community-based services	106,904,203	106,884,719
Case management services	11,847,399	12,627,500
Less reinsurance recoveries	(57,766,160)	(42,612,153)
Total health care expenses	<u>1,419,292,814</u>	<u>1,273,000,828</u>
General and administrative expenses	83,848,214	76,110,412
Premium tax expense	35,148,894	29,508,705
Total operating expenses	<u>1,538,289,922</u>	<u>1,378,619,945</u>
Operating income	68,308,762	44,215,131
Community reinvestment expense	2,496,498	2,607,911
Net income	<u>65,812,264</u>	<u>41,607,220</u>
Net assets, beginning of period	97,606,413	55,999,193
Contribution from affiliate	—	—
Net assets, end of period	<u>\$ 163,418,677</u>	<u>\$ 97,606,413</u>

See accompanying notes.

Banner University Family Care

Statements of Cash Flows

	Year Ended December 31	
	2021	2020
Operating activities		
Net income	\$ 65,812,264	\$ 41,607,220
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Reinsurance receivable	1,110,243	2,366,194
Capitation and supplemental revenues receivable	11,232,573	(11,185,040)
Reconciliation receivable	25,803,299	18,917,774
Other current assets	647,899	1,478,794
Accounts payable and other liabilities	(4,035,486)	(1,867,617)
Medical claims payable	62,618,899	(12,446,116)
Reconciliation payable	57,147,781	29,537,994
Alternative payment model payable	7,767,767	(1,927,957)
Due to affiliates	(24,083,868)	(77,279,542)
Net cash provided by (used in) operating activities	204,021,371	(10,798,296)
Investing activities		
Decrease in other assets	–	163,749
Net cash provided by investing activities	–	163,749
Net increase (decrease) in cash and cash equivalents	204,021,371	(10,634,547)
Cash and cash equivalents at beginning of period	322,171,329	332,805,876
Cash and cash equivalents at end of period	\$ 526,192,700	\$ 322,171,329

See accompanying notes.

Banner University Family Care

Notes to Financial Statements

December 31, 2021

1. Organization and Operations

Organizational Structure

Banner University Family Care (BUFC or the Plan) provides health-plan services to enrollees under contracts with the Arizona Health Care Cost Containment System (AHCCCS) in various counties in southern Arizona. Banner Health (Banner) is the sole corporate member of BUFC.

All of the Plan's revenues, except for investment income, were earned under its AHCCCS contracts, which are subject to periodic renewal. The BUFC financial statements include the financial activity associated with the following AHCCCS contracts:

- In March 2018, BUFC was awarded an AHCCCS Complete Care Contract (ACC) effective October 1, 2018 through September 30, 2025. ACC is a health plan that provides integrated care, both physical and behavioral health services. Members under the ACC plan receive coordination of care between providers within the same network. Integrated care improves health outcomes for our members and care coordination between providers. Our service areas include the following counties: Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Pima, Pinal, Santa Cruz and Yuma. The ACC contract includes a risk reconciliation whereby BUFC and AHCCCS share in the contract gains and losses (see Note 3).
- On October 1, 2017, BUFC began operations for the AHCCCS Arizona Long Term Care System (ALTCS) contract, which is a seven-year contract awarded in March 2017. The contract includes a risk reconciliation whereby BUFC and AHCCCS share in the contract gains and losses as defined in the contract.

Both contracts include the risk reconciliation ranging from 2% and 6% of capitation revenues. Reconciliation expenses of approximately \$71,181,892 and \$32,408,113 to reduce revenues has been recorded on the statement of revenues, expenses, and changes in net assets for the year ended December 31, 2021 and 2020, relating to this reconciliation.

Continuation of the AHCCCS programs is dependent upon governmental policies. The loss of these contracts would have an adverse effect on BUFC's future operations.

Banner University Family Care

Notes to Financial Statements (continued)

2. Liquidity

Financial assets available for general expenditure within one year of the balance sheet date consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 526,192,700	\$ 322,171,329
Reinsurance receivable	20,073,290	21,183,533
Capitation and supplemental revenues receivable	885,468	12,118,041
Pharmacy rebate and due from providers	3,960,594	4,132,962
	<u>\$ 551,112,052</u>	<u>\$ 359,605,865</u>

BUFC also has a net reconciliation receivable of \$9,695,478 as of December 31, 2021, which is subject to settlement with AHCCCS. The reconciliation receivable is settled with AHCCCS at the end of the contract year and once claim payment activity has been completed. Historically, AHCCCS has finalized the reconciliation receivable approximately 18 months subsequent to the contract year. As of December 31, 2020, the net reconciliation receivable was \$5,469,343.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, reinsurance receivable, capitation and supplemental revenues receivables, reconciliation receivables and payables, other current assets, accounts payable, due to affiliate, medical claims payable, and other current liabilities approximate fair value due to the short-term nature of these accounts.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

BUFC maintains cash in a bank account that frequently exceeds federally insured limits. To date, BUFC has not experienced any losses on this account.

At December 31, 2020, cash and cash equivalents included a money market account of \$78,991,174, recorded at fair value, which was liquidated as of December 31, 2021.

Reinsurance Receivable

Reinsurance receivable represents management's estimate of the medical claims cost recoverable under its reinsurance contract with AHCCCS and is calculated based on the identification of qualifying incurred inpatient and pharmacy expenses and a percentage of estimated inpatient and other pharmaceutical costs incurred but not yet reported. BUFC recorded reinsurance receivable of \$20,073,290 as of December 31, 2021, of which \$9,555,302 is related to the 2021-2022 contract year, \$10,430,814 is related to the 2020-2021 contract year, and \$87,174 is related to the 2019-2020 contract year. As of December 31, 2020, BUFC recorded reinsurance receivable of \$21,183,533, of which \$7,786,158 is related to the 2020-2021 contract year, \$13,271,496 is related to the 2019-2020 contract year and \$125,879 is related to the 2018-2019 contract year. There is a possibility that recorded estimates will change by a material amount in the near term.

Medical Claims Payable

The costs of hospital and medical services provided to enrollees served under contract are recognized in the period that the services are rendered. An accrual has been made for unpaid claims in process of review and for claims incurred but not received as of December 31, 2021 and 2020. The amount of this liability is estimated by independent actuaries using historical claims payment experience coupled with a review of experience for similar plans. Estimates are adjusted based upon changes in experience, and such adjustments are reflected in current operations. Because considerable variability is inherent in such estimates, there is a possibility that recorded estimates will change by a material amount in the near term (see Note 5).

Banner University Family Care
Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Premium Deficiency Reserves

BUFC performs periodic analysis of its expected future health care costs and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is recognized. Investment income is not included in the calculation of premium deficiency reserves. No premium deficiency reserve was recorded as of December 31, 2021 or 2020.

Revenue

BUFC records revenue from AHCCCS in the form of capitation premium, delivery supplemental premium, reconciliation settlement, alternative payment model settlement and reinsurance recoveries, which are recorded as a reduction to health care expenditures. Revenue is recorded at the estimated transaction price based on the terms outlined in the ACC and ALTCS contracts. BUFC evaluates whether an implicit price concession should be included in the estimate of the transaction price based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change. Revenue is recognized as performance obligations are satisfied, which primarily relate to the monthly period in which health care coverage is provided to the enrollees.

Capitation Premiums

Capitation premiums include amounts earned under contracts that require BUFC to provide health care coverage to enrollees of AHCCCS. The monthly capitation revenues have been agreed upon by BUFC and AHCCCS. Capitation premiums are recognized as revenue in the period to which health care coverage relates.

BUFC received capitation payments for Prior Period Coverage (PPC) separately from its prospective capitation payments. PPC capitation payments are intended to cover health care costs incurred by individuals while waiting for enrollment in the Plan. PPC revenues are recognized in the month in which the member is eligible for coverage under the Plan.

Amounts receivable under these contracts are recorded as capitation and supplemental revenues receivable. Capitation rates are subject to adjustment based on national episodic/diagnostic risk.

There is a possibility that recorded amounts will change by a material amount in the near term. There are no amounts accrued for risk adjustment as of December 31, 2021 and 2020.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Delivery Supplemental Premiums

Delivery supplemental premiums are recognized upon the delivery of a child by a member assigned to BUFC during a prospective enrollment period. This supplemental payment does not include payment for deliveries of those members who deliver in a prior coverage period.

Reconciliation Receivable (Payable) and Revenue (Contra-Revenue)

Certain AHCCCS programs are subject to settlement with AHCCCS based on the programs' net income or loss realized by BUFC and based on a formula defined by the AHCCCS contracts (reconciliation receivable (payable)). The reconciliation settlement period is based on the AHCCCS contract period of October 1 through September 30 and is subject to review and final settlement with AHCCCS. Through the report issuance date, AHCCCS has settled the reconciliation receivable (payable) with BUFC through the September 30, 2019, contract period. Management has recorded a decrease to revenue of approximately \$10,100,000 and \$4,700,000 for the years ended December 31, 2021 and 2020, respectively, relating to the settlement of prior reconciliation contract years. The estimated reconciliation receivable (payable) for the open reconciliation contract years has been recorded as estimated reconciliation receivable (payable) on the accompanying balance sheets.

As part of the ACC contract that ended September 30, 2020 and 2021, amounts due to (from) AHCCCS for PPC reconciliation settlement represent BUFC's profit or loss in excess of 2% of capitation revenue for the PPC members as defined in AHCCCS's policy. Because the reconciliation settlement is subject to change based on claims experience, there is a possibility that the recorded reconciliation settlement will change by a material amount in the near term.

As part of the ACC contract that ended September 30, 2018, amounts due to (from) AHCCCS for the Prospective Tiered reconciliation settlement represent BUFC's profit or loss for the prospective members. This reconciliation settlement represents 50% of BUFC's profit in excess of 3% to 6% of capitation revenue, 100% of BUFC's profit in excess of 6% of capitation revenue, and 100% of BUFC's loss in excess of 3% of capitation revenue. Because the reconciliation settlement is subject to change based on claims experience, there is a possibility that the recorded reconciliation settlement will change by a material amount in the near term.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

As part of the ACC contract that was entered into on October 1, 2018, amounts due to (from) AHCCCS for the reconciliation settlement represent BUFC's profit or loss for all members enrolled in the ACC plan. This reconciliation settlement represents 50% of BUFC's profit in excess of 2% to 6% of capitation revenue, 100% of BUFC's profit in excess of 6% of capitation revenue, and 100% of BUFC's loss in excess of 2% capitation revenue. Because the reconciliation settlement is subject to change based on claims experience, there is a possibility that recorded reconciliation settlements will change by a material amount in the near term.

Alternative Payment Model

AHCCCS has developed an alternative payment model policy with the intent to drive innovative arrangements that will further enhance cost control and result in quality improvements, while also offering providers an incentive to participate in these arrangements. BUFC is required to participate in these payment reform efforts as delineated by AHCCCS. As of December 31, 2021, and 2020, BUFC has a payable to AHCCCS related to this policy of \$31,580,426 and \$23,812,479, respectively, which is included in alternative payment model payable on the accompanying balance sheets. BUFC recorded \$12,512,747 and \$20,934,744, respectively, for 2021 and 2020 as an increase to revenue associated with the finalization of these contract years.

General and Administrative Expenses

General and administrative expenses are recognized as incurred and consist of administrative expenses that directly relate to the AHCCCS program and a corporate allocation from Banner for general and administrative expenses (see Note 7). These expenses are repaid by BUFC through intercompany settlements to Banner. These settlements are reflected as due to affiliate on the accompanying balance sheets.

Premium Tax Expense

The state of Arizona imposes a premium tax on capitation payments paid to BUFC by AHCCCS. BUFC receives the premium tax from AHCCCS and remits the entire amount to the appropriate taxing authority. BUFC includes the taxes collected as capitation revenues and taxes remitted as a premium tax expense on the accompanying statements of revenues, expenses, and changes in net assets.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Risk Management

BUFC is exposed to various risks of loss from torts, business interruption, errors and omissions, and natural disasters. Commercial insurance coverage is purchased by Banner for claims arising from such matters.

BUFC receives reinsurance coverage from AHCCCS to reduce the risk of catastrophic loss on services provided under the AHCCCS program. The gross capitation rates were reduced by the reinsurance cost. Under the AHCCCS program, risk of loss for inpatient claims is generally limited to an annual deductible of \$25,000 per member per policy year for the Acute-Care and ACC Contracts and \$20,000 or \$30,000 for the ALTCS contract. Eligible claims in excess of the deductible are generally paid at either 75% or 85%, depending on the type of claim, with no maximum annual benefit. Eligible reinsurance claims are reported in the accompanying financial statements as a reduction of health care expenses at the amount expected to be collected from AHCCCS.

Subsequent Events

BUFC has evaluated events and transactions occurring subsequent to December 31, 2021 through May 25, 2022, the date of issuance of the accompanying financial statements.

4. Other Current Assets

Other current assets as of December 31 consist of the following:

	<u>2021</u>	<u>2020</u>
Pharmacy rebate receivable	\$ 1,795,354	\$ 2,463,131
Due from providers	2,165,240	1,669,831
Prepaid expenses and other	1,169,617	1,645,148
	<u>\$ 5,130,211</u>	<u>\$ 5,778,110</u>

BUFC estimates the amount that will be received in pharmacy rebates based on contractual arrangements with the drug manufacturers. Changes to the pharmacy rebate contracts and membership growth have resulted in a decrease to the pharmacy rebate receivable in 2021.

Banner University Family Care

Notes to Financial Statements (continued)

4. Other Current Assets (continued)

Overpayments to health care providers are reported as due from vendors. The provider is required to reimburse the Plan for the overpayment or have future claims offset the overpayment. Due from providers increased in 2021 due to decreased claims activity in the ALTCS population.

5. Medical Claims Payable

Medical claims payable consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Claims payable or pending approval	\$ 123,231,569	\$ 65,843,046
Provisions for claims incurred but not yet reported	94,192,685	88,962,309
	<u>\$ 217,424,254</u>	<u>\$ 154,805,355</u>

The cost of health care services is recognized in the period in which care is provided and includes an estimate of the cost of services that has been incurred but not yet reported. BUFC estimates accrued claims payable based on historical claims payments and other relevant information. Unpaid claims adjustment expenses are an estimate of the cost to process the incurred but not reported claims and are included in medical claims payable. Estimates are continually monitored and reviewed, and as medical claims are paid or estimates adjusted, differences are recorded on the statement of revenues, expenses, and changes in net assets. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts recorded.

While the ultimate number of claims paid is dependent on future developments, management is of the opinion that the accrued medical claims payable is adequate.

Banner University Family Care

Notes to Financial Statements (continued)

5. Medical Claims Payable (continued)

The following is a reconciliation of the accrued medical claims payable for the years ended December 31:

	2021	2020
Beginning balance	\$ 154,805,355	\$ 167,251,471
Incurred:		
Current	1,462,538,993	1,305,142,506
Prior	2,672,582	2,358,924
Total	1,465,211,575	1,307,501,430
Paid:		
Current	1,245,114,739	1,150,337,151
Prior	157,477,937	169,610,395
Total	1,402,592,676	1,319,947,546
Ending balance	\$ 217,424,254	\$ 154,805,355

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established year-end liability. Positive amounts reported for incurred, related to prior years, result from claims being adjudicated and paid for amounts greater than originally estimated. The negative amounts reported for incurred, related to prior years, results from amounts paid less than originally estimated.

6. Related-Party Transactions

BUFC purchases physician and hospital-based health care services for its members from Banner. During the years ended December 31, 2021 and 2020, BUFC paid claims for medical expenses to Banner totaling \$205,687,357 and \$173,638,304, respectively.

BUFC purchases administrative services from Banner, which are recognized as administrative expenses on the accompanying statements of revenues, expenses and changes in net assets. For the years ended December 31, 2021 and 2020, BUFC incurred \$64,223,061 and \$65,108,853, respectively, of corporate and health plan allocations from Banner and affiliated entities for administrative services and program activities (see Note 7).

Banner University Family Care

Notes to Financial Statements (continued)

6. Related-Party Transactions (continued)

At December 31, 2021 and 2020, BUFC had a payable to Banner recorded as due to affiliate of \$50,520,412 and \$74,604,280, respectively.

7. Functional Expense

The following statement of functional expenses reports BUFC's operating expenses by natural classification for the years ended December 31, 2021 and 2020. BUFC operating expenditures include allocations of corporate expenditures and Banner health plan expenditures. The Banner health plan expenditures relate to costs to operate Banner's insurance programs, primarily relating to claims management costs. Banner allocates the health plan expenditures based on plan enrollment. The Banner corporate expenditure allocation primarily relates to general and administrative functions and is provided by Banner for each of its operating units, including BUFC. Banner corporate allocations primarily relate to salary and benefit costs associated with information technology, patient financial services, accounting, human resources, and other overhead-type services (see Note 1).

	Year Ended December 31	
	2021	2020
Expenses:		
Salaries and benefits	\$ 44,878,197	\$ 35,495,501
Supplies	6,409,498	7,347,368
Professional fees	2,480,210	2,599,690
Medical claims costs	1,419,292,814	1,273,000,828
Depreciation	745,351	885,360
Interest expense	3,713,543	3,043,579
Other	25,621,415	26,738,913
Premium taxes	35,148,894	29,508,706
Total operating expenses	<u>\$ 1,538,289,922</u>	<u>\$ 1,378,619,945</u>

8. Income Taxes

BUFC is a nonprofit corporation exempt from income taxes under Internal Revenue Code Section 501(c)(3).

Banner University Family Care

Notes to Financial Statements (continued)

8. Income Taxes (continued)

BUFC has not recorded any expense or accrued for any related expense for any uncertain tax positions. BUFC's 2015 through 2020 tax years remain subject to examination for federal income tax purposes, whereas the 2014 through 2020 tax years remain subject to examination for state taxing jurisdictions in which BUFC operates.

9. Commitments and Contingencies

Litigation

BUFC is party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on BUFC's financial position or results of operations.

AHCCCS Performance Measures

BUFC's contract with AHCCCS requires BUFC to be in compliance with certain financial and nonfinancial performance measures, as well as certain prerequisites to maintain BUFC's eligibility as a party to the contract with AHCCCS. Management believes that BUFC is in compliance with these nonfinancial performance measures for contract periods ended after September 30, 2016 and through December 31, 2021. Compliance with these nonfinancial performance measures can be subject to future review by AHCCCS and may result in sanctions unknown or unasserted at this time.

During 2021 and 2020, Banner and affiliated entities did not provide capital contributions, and BUFC was in compliance with the required equity per member AHCCCS ratio. As of December 31, 2021, BUFC's equity per member was in compliance with the AHCCCS requirement.

Performance Bond

BUFC secured annual performance bonds in the amounts of \$34 million and \$118 million with an unrelated third-party insurance company to satisfy the performance bond requirement of BUFC's AHCCCS contracts. The bonds satisfy BUFC's contractual obligation as prescribed by AHCCCS. The current performance bonds expire September 30, 2022.

Banner University Family Care

Notes to Financial Statements (continued)

9. Commitments and Contingencies (continued)

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties. Management believes that BUFC is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors
Banner University Family Care

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial information of the AHCCCS Acute (collectively the Acute-Care and ACC Contracts) and ALTC Contracts, and the detail of sub-capitated expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

May 25, 2022

Banner University Family Care

Balance Sheet – ACC and ALTCS Contracts

December 31, 2021

	ACC	ALTCS	Total
Assets			
Current assets:			
Cash and cash equivalent	\$ 441,753,242	\$ 84,439,458	\$ 526,192,700
Reinsurance receivable	16,357,709	3,715,581	20,073,290
Capitation and supplemental revenues receivable	885,468	–	885,468
Reconciliation receivable	–	–	–
Other current assets	4,076,754	1,053,457	5,130,211
Total current assets	463,073,173	89,208,496	552,281,669
Reconciliation receivable	–	9,695,478	9,695,478
Total assets	\$ 463,073,173	\$ 98,903,974	\$ 561,977,147
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 5,287,486	\$ 586,512	\$ 5,873,998
Due to affiliate	44,007,066	6,513,346	50,520,412
Medical claims payable	157,621,016	59,803,238	217,424,254
Reconciliation Payable	9,681,411	–	9,681,411
Alternative payment model	27,080,829	4,499,417	31,580,246
Other current liabilities	5,073,434	666,629	5,740,063
Total current liabilities	248,751,242	72,069,142	320,820,384
Reconciliation and alternative payment model payable	72,806,183	4,689,621	77,495,804
Other liabilities	227,223	15,059	242,282
Total liabilities	321,784,648	76,773,822	398,558,470
Net assets	141,288,525	22,130,152	163,418,677
Total liabilities and net assets	\$ 463,073,173	\$ 98,903,974	\$ 561,977,147

Banner University Family Care

Statement of Revenues and Expenses – ACC and ALTCS Contracts

Year Ended December 31, 2021

	<u>ACC</u>	<u>ALTCS</u>	<u>Total</u>
Revenue			
Capitation premiums	\$1,287,548,416	\$ 346,259,485	\$1,633,807,901
Delivery supplemental	31,331,708	–	31,331,708
Reconciliation settlement, net	(67,488,067)	(3,693,825)	(71,181,892)
Alternative payment model	9,446,219	3,066,528	12,512,747
Investment income, net	99,749	28,471	128,220
Total revenues	<u>1,260,938,025</u>	<u>345,660,659</u>	<u>1,606,598,684</u>
Health care expenses			
Hospitalization	206,720,628	8,717,419	215,438,047
Medical compensation	391,031,635	25,198,754	416,230,389
Ancillary and other medical services	552,808,426	37,681,829	590,490,255
Institutional	–	136,148,681	136,148,681
Home and community-based services	83	106,904,120	106,904,203
Case management services	–	11,847,399	11,847,399
Less reinsurance recoveries	(50,241,281)	(7,524,879)	(57,766,160)
Total health care expenses	<u>1,100,319,491</u>	<u>318,973,323</u>	<u>1,419,292,814</u>
General and administrative expenses	66,474,326	17,373,888	83,848,214
Premium tax expense	27,935,739	7,213,155	35,148,894
Total operating expenses	<u>1,194,729,556</u>	<u>343,560,366</u>	<u>1,538,289,922</u>
Operating income	66,208,469	2,100,293	68,308,762
Community reinvestment	2,456,398	40,100	2,496,498
Net income	<u>\$ 63,752,071</u>	<u>\$ 2,060,193</u>	<u>\$ 65,812,264</u>

Banner University Family Care

Statement of Cash Flows – ACC and ALTCS Contracts

Year Ended December 31, 2021

	<u>ACC</u>	<u>ALTCS</u>	<u>Total</u>
Operating activities			
Net income	\$ 63,752,071	\$ 2,060,193	\$ 65,812,264
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Changes in assets and liabilities:			
Reinsurance receivable	2,087,560	(977,317)	1,110,243
Capitation and supplemental revenues receivable	9,978,710	1,253,863	11,232,573
Reconciliation receivable	14,785,303	11,017,996	25,803,299
Other current assets	782,592	(134,693)	647,899
Accounts payable and other liabilities	(3,037,940)	(997,546)	(4,035,486)
Medical claims payable	42,156,067	20,462,832	62,618,899
Reconciliation payable	53,864,375	3,283,406	57,147,781
Alternative payment model payable	7,161,504	606,263	7,767,767
Due to affiliates	(6,047,095)	(18,036,773)	(24,083,868)
Net cash provided by operating activities	<u>185,483,147</u>	<u>18,538,224</u>	<u>204,021,371</u>
Net increase in cash and cash equivalent	185,483,147	18,538,224	204,021,371
Cash and cash equivalent at beginning of period	256,270,095	65,901,234	322,171,329
Cash and cash equivalent at end of period	<u>\$ 441,753,242</u>	<u>\$ 84,439,458</u>	<u>\$ 526,192,700</u>

Banner University Family Care LTC
 AHCCCS Long Term Care Services
 Sub-Capitated / Block Purchases Expenses Report

Contract Year Ended September 30, 2021

Account #	Account Description	Dual Amount	Non Dual Amount	Amount	CYTD Amount
Sub-capitated expenses					
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -
50205-01	Primary Care Physician Services	124,500	874,809	999,309	999,309
50210-01	Behavioral Health Physician Services	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-
50220-01	FQHC/RHC Services	-	-	-	-
50305-01	Emergency Facility Services	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-
50315-01	Laboratory, Radiology & Medical Imaging	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-
50320-05	Outpatient Behavioral Health Facility	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-
50330-01	Dental	489,005	110,037	599,042	599,042
50335-01	Transportation	703,153	1,055,787	1,758,940	1,758,940
50345-01	Therapies	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	-	-
50355-06	Peer/Family Support	-	-	-	-
50355-07	Support Services	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-
50355-11	Living Skills Training	-	-	-	-
50355-12	Supported Employment	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-
50355-21	Counseling	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-
50355-23	Treatment Services	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-
Total sub-capitated expenses		<u>\$ 1,316,658</u>	<u>\$ 2,040,633</u>	<u>\$ 3,357,291</u>	<u>\$ 3,357,291</u>

Banner University Family Care LTC
 AHCCCS Long Term Care Services
 Sub-Capitated / Block Purchases Expenses Report (continued)

Account #	Account Description	Dual Amount	Non Dual Amount	Amount	CYTD Amount
Block purchases expenses					
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -
50205-01	Primary Care Physician Services	-	-	-	-
50210-01	Behavioral Health Physician Services	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-
50220-01	FQHC/RHC Services	-	-	-	-
50305-01	Emergency Facility Services	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-
50315-01	Laboratory, Radiology & Medical Imaging	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-
50320-05	Outpatient Behavioral Health Facility	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-
50330-01	Dental	-	-	-	-
50335-01	Transportation	-	-	-	-
50345-01	Therapies	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	-	-
50355-06	Peer/Family Support	-	-	-	-
50355-07	Support Services	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-
50355-11	Living Skills Training	-	-	-	-
50355-12	Supported Employment	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-
50355-21	Counseling	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-
50355-23	Treatment Services	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-
Total block purchases expenses		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Banner University Family Care
AHCCCS Complete Care Program
Sub-Capitated Expenses Detail

Contract Year Ended September 30, 2021

Account	Account Description	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	Title XIX Total	State Only Transplant	State Only Total	Grand Total
Sub-capitated hospitalization expenses												
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50110-01	Hospital Inpatient -Behavioral Health Services	-	-	-	-	-	-	-	-	-	-	-
50115-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
Total sub-capitated hospitalization expenses:		-	-	-	-	-	-	-	-	-	-	-
Sub-capitated medical compensation expenses												
50205-01	Primary Care Physician Services	-	-	-	-	-	-	-	-	-	-	-
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	96,017	891,264	427,935	482,641	249,252	166,332	679,069	2,992,510	-	-	2,992,510
50230-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
Total sub-capitated medical compensation expenses		96,017	891,264	427,935	482,641	249,252	166,332	679,069	2,992,510	-	-	2,992,510
Sub-capitated other medical expenses												
50305-01	Emergency Facility Services	-	-	-	-	-	-	-	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-	-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	-	-	-	-	-	-	-	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-	-	-	-	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-	-	-	-	-	-	-	-
50330-01	Dental	1,628,650	28,061,057	2,053,051	851,387	851,394	1,360,635	3,829,529	38,635,703	-	-	38,635,703
50335-01	Transportation	141,440	2,480,186	1,116,657	606,750	251,068	536,673	1,515,259	6,648,034	-	-	6,648,034
50340-00	Nursing Facility, Home Health Care	-	-	-	-	-	-	-	-	-	-	-
50345-01	Therapies	-	-	-	-	-	-	-	-	-	-	-
50350-01	Alternative Payment Model Performance Based Payments to Providers	-	-	-	-	-	-	-	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-	-	-	-	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	-	-	-	-	-	-	-	-	-
50355-06	Peer/Family Support	-	-	-	-	-	-	-	-	-	-	-
50355-07	Support Services	-	-	-	-	-	-	-	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-	-	-	-	-	-	-	-
50355-11	Living Skills Training	-	-	-	-	-	-	-	-	-	-	-
50355-12	Supported Employment	-	-	-	-	-	-	-	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-	-	-	-	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-	-	-	-	-	-	-	-
50355-21	Counseling	-	-	-	-	-	-	-	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-	-	-	-	-	-	-	-
50355-23	Treatment Services	-	-	-	-	-	-	-	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-	-	-	-	-	-	-	-
50360-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-	-	-	-	-	-	-	-
Total sub-capitated other medical expenses		1,770,090	30,541,243	3,169,709	1,458,137	1,102,462	1,897,308	5,344,788	45,283,737	-	-	45,283,737
Total sub-capitated expenses		\$ 1,866,107	\$ 31,432,507	\$ 3,597,643	\$ 1,940,777	\$ 1,351,714	\$ 2,063,641	\$ 6,023,857	\$ 48,276,247	\$ -	\$ -	\$ 48,276,247

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